

JAN 19 2023

FILED

CERTIFICATION

January 19, 2023

I, Eric Dunning, Director of Insurance of the State of Nebraska, do hereby certify that the attached is a full and correct copy of the Financial Examination Report of

FARMERS MUTUAL INSURANCE COMPANY OF NEBRASKA

AS OF

DECEMBER 31, 2021

The report is now on file and forming a part of the records of this Department.

I hereto subscribe my name under the seal of my office at Lincoln, Nebraska.



A handwritten signature in blue ink, appearing to read "Eric Dunning".

DIRECTOR OF INSURANCE

CERTIFICATE OF ADOPTION

Notice of the proposed report for the financial examination of

FARMERS MUTUAL INSURANCE COMPANY OF NEBRASKA

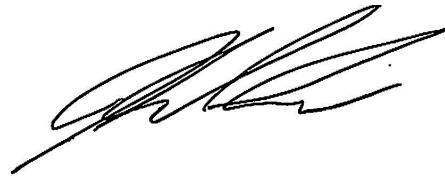
501 SOUTH 13TH STREET

LINCOLN, NEBRASKA 68508

dated as of December 31, 2021, verified under oath by the examiner-in-charge on December 16, 2022, and received by the company on December 19, 2022, has been adopted without modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3) (a).

Dated this 6th day of January 2023.

STATE OF NEBRASKA
DEPARTMENT OF INSURANCE

A handwritten signature in black ink, appearing to read 'Justin C. Schrader', is written over a horizontal line.

Justin C. Schrader, CFE
Chief Financial Examiner

STATE OF NEBRASKA

Department of Insurance

EXAMINATION REPORT

OF

FARMERS MUTUAL INSURANCE COMPANY OF NEBRASKA

as of

DECEMBER 31, 2021

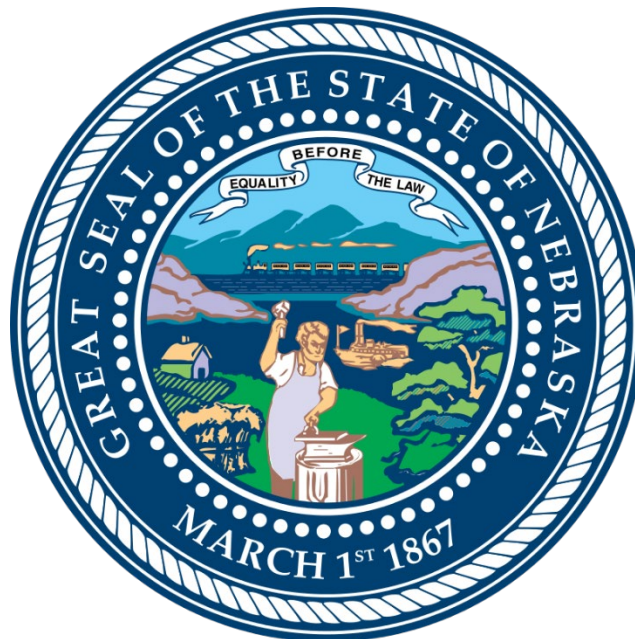


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Lincoln, Nebraska
November 7, 2022

Honorable Eric Dunning
Director of Insurance
Nebraska Department of Insurance
1526 K Street, Suite 200
Lincoln, Nebraska 68508

Dear Sir:

Pursuant to your instruction and authorizations, and in accordance with statutory requirements, an examination has been conducted of the financial condition and business affairs of:

FARMERS MUTUAL INSURANCE COMPANY OF NEBRASKA
501 South 13th Street
Lincoln, Nebraska 68508

(hereinafter also referred to as the “Company”), and the report of such examination is respectfully presented herein.

INTRODUCTION

The State of Nebraska last examined the Company as of December 31, 2017. The current financial condition examination covers the intervening period to, and includes the close of business on December 31, 2021 and such subsequent events and transactions as were considered pertinent to this report. The State of Nebraska participated in this examination and assisted in the preparation of this report.

SCOPE OF EXAMINATION

The examination was conducted pursuant to and in accordance with both the NAIC Financial Condition Examiners Handbook (Handbook) and Section §44-5904(1) of the Nebraska Insurance Statutes. The Handbook requires that examiners plan and perform the examination to

evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including but not limited to: corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. The examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and Annual Statement Instructions, when applicable to domestic state regulations.

The Nebraska Department of Insurance made a general review of the Company's operations and the manner in which its business has been conducted in order to determine compliance with statutory and charter provisions. The Company's history was traced and has been set out in this report under the caption "Description of Company." All items pertaining to management and control were reviewed, including provisions for disclosure of conflicts of interest to the Board of Directors and the departmental organization of the Company. The Articles of Incorporation and By-Laws were reviewed, including appropriate filings of any changes or amendments thereto. The minutes of the meetings of the Policyholders, Board of Directors, and committees held during the examination period were read and noted. Attendance at meetings, proxy information, election of Directors and Officers, and approval of investment transactions were also noted.

The fidelity bond and other insurance coverages protecting the Company's property and interests were reviewed, as were plans for employee welfare and pension. Certificates of Authority to conduct the business of insurance in the various states were inspected, and a survey was made of the Company's general plan of operation.

Data reflecting the Company's growth during the period under review, as developed from the Company's filed annual statements, is reflected in the financial section of this report under the caption "Body of Report."

The Company's reinsurance facilities were ascertained and noted and have been commented upon in this report under the caption "Reinsurance." Accounting records and procedures were tested to the extent deemed necessary through the risk-focused examination process. The Company's method of claims handling and procedures pertaining to the adjustment and payment of incurred losses were also noted.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This included a review of workpapers prepared by KPMG LLP, the Company's external auditors, during their audit of the Company's accounts for the year ended December 31, 2021. Portions of the auditor's workpapers have been incorporated into the workpapers of the examiners and have been utilized in determining the scope and areas of emphasis in conducting the examination. This utilization was performed pursuant to Title 210 (Rules of the Nebraska Department of Insurance), Chapter 56, Section 013.

Any failure of items to add to the totals shown in schedules and exhibits appearing throughout this report is due to rounding.

DESCRIPTION OF COMPANY

HISTORY

The Company was incorporated under the laws of the State of Nebraska as an assessment fire association on September 1, 1891 and commenced business on November 1st of that year. During the period of the early 1930's, several small county mutual assessment companies in

Nebraska merged into Farmers Mutual Insurance Company, which at the time remained an assessment fire association.

On June 1, 1960, the Company's By-Laws were amended to change the plan of operation to a non-assessable mutual insurance company.

Under the provisions of its charter and in conformity with Nebraska statutes, the Company is authorized to write the kinds of insurance prescribed by Section §44-201, Subsections 4, 5, 7, 8, 9, 10, 11, 12, 13, 14, 16, 18, and 20 of the Nebraska Insurance Code.

MANAGEMENT AND CONTROL

Policyholders

Article III of the Company's Articles of Incorporation states that, "the Company shall operate upon the mutual plan and charge a fixed premium for insurance written." Article VI further states that, "each person, corporation, general partnership, limited partnership, limited liability partnership, limited liability company, joint venture, trust, business trust, cooperative, association or other entity owning a policy or policies of insurance issued by the Company shall be a member thereof and entitled to one vote which may be cast in person or by proxy." Article II, Section 1 of the Company's By-Laws states that, "the annual meeting of the members shall be held in Lincoln, Nebraska on the third Wednesday in February at 10:00 a.m."

Board of Directors

Article VII of the Articles of Incorporation states that, "the Company's Board of Directors shall be elected by the Company's members. The Board of Directors shall consist of nine (9) Directors and shall be divided into three classes as nearly equal in number as possible. The Directors in each class shall be elected for a term of three years and until their successors are elected and qualified. One class shall be elected by ballot annually."

The following persons were serving as Directors at December 31, 2021:

| <u>Name and Residence</u> | <u>Principal Occupation</u> | <u>Term Expires</u> |
|---|---|----------------------------|
| Steve D. Erwin Lincoln, Nebraska | Bank President – Retired | 2022 |
| Timothy G. Petersen Cambridge, Nebraska | Rancher | 2022 |
| Mark T. Walz Lincoln, Nebraska | Chairman of the Board of Directors, President, and Chief Executive Officer, Farmers Mutual Insurance Company of Nebraska | 2022 |
| Ann M. Frohman Lincoln, Nebraska | Attorney, Frohman Law Office, LLC | 2023 |
| Robert T. Gritmit Lincoln, Nebraska | Attorney – Retired | 2023 |
| Richard J. Labenz Lincoln, Nebraska | Partner, Labenz & Associates, LLC | 2023 |
| Ann L. Parr Lincoln, Nebraska | Executive Vice President, Secretary, and General Counsel, Farmers Mutual Insurance Company of Nebraska | 2024 |
| Dr. James K. States North Platte, Nebraska | Dentist – Retired | 2024 |
| Paul R. Waggoner Alma, Nebraska | Insurance Agent | 2024 |

Article III, Section 13, of the Company’s By-Laws states that, “by resolution of the Board of Directors, the Directors may be paid their expenses, if any, of attendance at each meeting of the Board of Directors. In addition, those Directors who are not also employees of the Company may be paid such other compensation as the Board of Directors may determine from time to time, including without limitation annual fees or retainers and fees for meeting attendance.” Each Director not actively employed by the Company receives \$6,500 for each

regularly-scheduled Board of Directors meeting attended and compensation for actual expenses incurred for their attendance. Also, each Director not actively employed by the Company who serves on a Committee of the Board receives \$1,000 for each Committee meeting attended. The Compensation Committee monitors the amount of compensation annually and makes changes as necessary.

Officers

Article IV, Section 1 of the Company's By-Laws states that, "the required Officers of the Company shall be a President, a Secretary and a Treasurer. In addition, the Company may have, at the discretion of the Board of Directors, a Chief Executive Officer, a Chief Operating Officer, a Chief Financial Officer, one or more Executive Vice President(s) (as the Board of Directors may determine) one or more Senior Vice President(s) (as the Board of Directors may determine), and such other Officers as may be deemed necessary by the Board of Directors, the Chief Executive Officer or the President." Article IV, Section 2 states that, "the President, Secretary and Treasurer of the Company, as well as any Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Executive Vice President(s) and Senior Vice President(s) of the Company, shall be elected by the Board of Directors at its annual meeting or at a special meeting called for that purpose."

The following is a listing of Senior Officers elected and serving the Company at December 31, 2021:

| <u>Name</u> | <u>Office</u> |
|--------------------|--|
| Mark T. Walz | Chairman of the Board of Directors, President, and Chief Executive Officer |
| Ann L. Parr | Executive Vice President, Secretary, and General Counsel |
| Lisa M. Finkner | Senior Vice President, Treasurer, and Chief Financial Officer |

Name

Office

Tim R. Schlegelmilch

Senior Vice President, Investments and Risk
Management

Committees

Article III, Section 14, of the Company’s By-Laws states that, “the Board of Directors may, by resolution or resolutions passed by a majority of the whole Board, appoint an Executive Committee and one or more other committees, each committee to consist of two or more Directors of the Company, which committees shall, to the extent permitted by law, have and may exercise such powers of the Board of Directors in the management of the business and affairs of the Company as shall be delegated to them. The powers of any such committee shall be set forth in the resolution or resolutions appointing such committee.”

The following persons were serving on the Executive Committee at December 31, 2021:

Mark T. Walz, Chairman
Robert T. Gritmit

Ann L. Parr

The following persons were serving on the Audit Committee at December 31, 2021:

Richard J. Labenz, Chairman
Robert T. Gritmit

Steven D. Erwin
Mark T. Walz

The following persons were serving on the Compensation Committee at December 31, 2021:

Robert T. Gritmit, Chairman
Mark T. Walz

James K. States

The following persons were serving on the Employee Benefits Committee at December 31, 2021:

Mark T. Walz, Chairman

Ann L. Parr

The following persons were serving on the Investment Committee at December 31, 2021:

Steven D. Erwin, Chairman
Ann L. Parr

Ann M. Frohman
Mark T. Walz

The following persons were serving on the Proxy Committee at December 31, 2021:

Mark T. Walz, Chairman

James K. States

TERRITORY AND PLAN OF OPERATION

As evidenced by current or continuous Certificates of Authority, the Company is licensed to transact business in the following states at December 31, 2021:

Illinois
Nebraska

Indiana
North Dakota

Iowa
South Dakota

Kansas

Business is produced under the general agency system in the States of Nebraska, North Dakota, and South Dakota. The Company has contracts with 325 agencies and 1,120 agents in Nebraska, 58 agencies and 130 agents in North Dakota, and 174 agencies and 499 agents in South Dakota.

Nebraska is divided into eight claim districts, North Dakota three, and South Dakota, six. A Director of Field Operations, four Regional Managers, fifteen District Managers, and two Claim Supervisors have under their direct supervision special agents who are assigned to various territories. There are also three Home Office Claims Supervisors located in the Lincoln home office. All are salaried personnel responsible for adjusting losses and promoting quality agency relations.

REINSURANCE

Ceded

Under a property excess of loss reinsurance agreement with Swiss Reinsurance America Corporation (Swiss Re), business classified as fire, allied lines, earthquake, inland marine, glass,

and the property portion of homeowners and farmowners multiple peril are ceded. The Company's first, second, third, fourth, and fifth layers provide coverage in excess of the Company's \$625,000 retention as follows:

| <u>Layer</u> | <u>Limits</u> |
|-----------------|-------------------------------------|
| 1 st | \$ 500,000 xs \$ 625,000 per risk |
| 2 nd | \$1,000,000 xs \$1,125,000 per risk |
| 3 rd | \$1,000,000 xs \$2,125,000 per risk |
| 4 th | \$2,000,000 xs \$3,125,000 per risk |
| 5 th | \$2,000,000 xs \$5,125,000 per risk |

The reinsurer's liability shall not exceed \$1,500,000 under the first layer, \$2,000,000 under the second and third layers, and \$4,000,000 under the fourth and fifth layer on all risks involved in one loss occurrence, and \$8,000,000 per calendar year.

Under a property catastrophe excess of loss agreement with subscribing reinsurers, accumulated excess property losses and property losses caused by a single loss event, including the comprehensive portion of auto losses, are covered for the lines of business cited under excess per risk agreement. An outline of this coverage by layer is shown below, subject to the Company's \$10,000,000 retention with a \$20,000,000 annual aggregate deductible in the first layer and \$20,000,000 retention with a \$10,000,000 annual aggregate deductible in the second layer. The limit for all loss events commencing during the agreement period is also shown by layer.

| <u>Layer</u> | <u>Limits</u> |
|-----------------|--|
| 1 st | 95% of \$10,000,000 xs \$10,000,000 xs \$20,000,000 or 95% of \$20,000,000 all loss events |
| 2 nd | 95% of \$10,000,000 xs \$20,000,000 xs \$10,000,000 or 95% of \$20,000,000 all loss events |
| 3 rd | 100% of \$35,000,000 xs \$30,000,000 or 100% of \$70,000,000 all loss events |
| 4 th | 100% of \$45,000,000 xs \$65,000,000 or 100% of \$90,000,000 all loss events |
| 5 th | 100% of \$90,000,000 xs \$110,000,000 or 100% of \$180,000,000 all loss events |

Under a casualty excess of loss agreement with Swiss Re, per occurrence reinsurance coverage is provided in two layers, and applies to those policies written and classified by the Company as auto liability, farm and ranch liability, homeowners liability, owners landlords and tenants liability, comprehensive personal liability, and dwelling owners liability. The Company shall retain the first \$500,000 of ultimate net loss as respects any one loss occurrence, not to exceed \$2,500,000 (1st layer \$1,000,000 xs \$500,000; 2nd layer \$1,000,000 xs \$1,500,000).

Personal umbrella liability policies are reinsured net of the Company's retention of 2.5% of the first \$1,000,000 per occurrence under a continuous reinsurance contract with Swiss Re. The reinsurer indemnifies the Company for the remaining 97.5% of the first \$1,000,000, and 100% of the next \$4,000,000 in any one loss occurrence.

Under a property and casualty aggregate excess of loss agreement, the subscribing reinsurers agree to indemnify the Company in respect to the liability which may accrue to the Company under all policies in force at the effective date of the agreement or issued or renewed at or after the effective date. The reinsurers shall indemnify the Company for the amount by which the aggregate of the Company's ultimate net loss during the term of the agreement exceeds 75% of the company's net earned premium for the term of the agreement. The reinsurer's limit of liability in the aggregate for ultimate net loss under the agreement shall not exceed 100% of \$20,000,000.

General

All contracts reviewed contained standard insolvency, arbitration, errors and omissions, and termination clauses where applicable. All contracts contained the clauses necessary to assure reinsurance credits could be taken.

BODY OF REPORT

GROWTH

The following comparative data reflects the growth of the Company during the period covered by this examination:

| | <u>2018</u> | <u>2019</u> | <u>2020</u> | <u>2021</u> |
|-----------------------|--------------------|--------------------|--------------------|--------------------|
| Bonds | \$480,234,129 | \$509,251,262 | \$542,922,830 | \$578,183,113 |
| Admitted assets | 737,463,123 | 791,645,528 | 830,576,875 | 905,924,387 |
| Loss reserves | 95,598,973 | 114,848,719 | 115,815,895 | 142,649,609 |
| Total liabilities | 350,973,196 | 391,124,988 | 426,718,747 | 464,881,199 |
| Capital and surplus | 386,489,927 | 400,520,540 | 403,858,128 | 441,043,188 |
| Premiums earned | 359,972,587 | 378,403,127 | 392,115,577 | 398,274,618 |
| Net investment income | 13,805,068 | 16,537,433 | 16,476,492 | 17,365,127 |
| Losses incurred | 210,058,740 | 264,936,475 | 240,844,013 | 274,246,428 |
| Net income | 33,042,628 | 13,459,900 | 24,845,843 | 9,633,759 |

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the State of Nebraska Department of Insurance and present the financial condition of the Company for the period ending December 31, 2021. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statements and should be considered an integral part of the financial statements. A reconciliation of the capital and surplus account for the period under review is also included.

FINANCIAL STATEMENT
December 31, 2021

| <u>Assets</u> | <u>Assets</u> | <u>Assets Not Admitted</u> | <u>Net Admitted Assets</u> |
|--|----------------------|---------------------------------------|---|
| Bonds | \$578,183,113 | | \$578,183,113 |
| Common stocks | 144,054,986 | | 144,054,986 |
| Properties occupied by the company | 18,004,420 | | 18,004,420 |
| Properties held for the production of income | 9,189,333 | | 9,189,333 |
| Cash and cash equivalents | <u>44,369,033</u> | | <u>44,369,033</u> |
| Subtotal, cash and invested assets | \$793,800,885 | | \$793,800,885 |
| Investment income due and accrued | 5,922,774 | | 5,922,774 |
| Uncollected premiums and agents' balances in the course of collection | 53,277,028 | \$ 82,050 | 53,194,978 |
| Amounts recoverable from reinsurers | 2,701,102 | | 2,701,102 |
| Funds held by or deposited with reinsured companies | 100,000 | | 100,000 |
| Current federal income tax recoverable | 2,396,739 | | 2,396,739 |
| Net deferred tax asset | 15,984,528 | | 15,984,528 |
| Guaranty funds receivable | 53,854 | | 53,854 |
| Electronic data processing equipment and software | 504,063 | 2,900 | 501,163 |
| Furniture and equipment | 1,132,887 | 1,132,887 | |
| Corporate owned life insurance | 30,887,260 | | 30,887,260 |
| Company owned autos | 991,924 | 991,924 | |
| Prepaid expenses | 498,361 | 498,361 | |
| Balances receivable reinsurance assumed | 153 | | 153 |
| Other assets | <u>563,230</u> | <u>182,279</u> | <u>380,951</u> |
| Totals | <u>\$908,814,788</u> | <u>\$2,890,401</u> | <u>\$905,924,387</u> |

Liabilities, Surplus, and Other Funds

| | |
|--|----------------------|
| Losses | \$142,649,609 |
| Reinsurance payable on paid losses and loss adjustment expense | 107 |
| Loss adjustment expenses | 16,179,314 |
| Commissions payable and contingent commissions | 8,774,729 |
| Other expenses | 34,246,955 |
| Taxes, licenses and fees | 2,101,611 |
| Unearned premiums | 190,688,238 |
| Advance premium | 7,577,173 |
| Ceded reinsurance premiums payable | 7,233,779 |
| Funds held by company under reinsurance treaties | 345,212 |
| Amounts withheld or retained by company for account of others | 50,847 |
| Liability for pension benefits | 39,428,094 |
| Liability for postretirement benefits | 15,398,458 |
| Other liabilities | <u>207,073</u> |
| | |
| Total liabilities | <u>\$464,881,199</u> |
| | |
| Guaranty fund | \$ 1,000,000 |
| Unassigned funds (surplus) | <u>440,043,188</u> |
| | |
| Surplus as regards policyholders | <u>\$441,043,188</u> |
| | |
| Totals | <u>\$905,924,387</u> |

STATEMENT OF INCOME – 2021

Underwriting Income

| | |
|--------------------------------------|------------------------|
| Premiums earned | \$398,274,618 |
| Losses incurred | \$274,246,428 |
| Loss adjustment expenses incurred | 32,827,969 |
| Other underwriting expenses incurred | <u>104,162,044</u> |
| Total underwriting deductions | <u>\$411,236,441</u> |
| Net underwriting gain | <u>\$ (12,961,823)</u> |

Investment Income

| | |
|------------------------------|----------------------|
| Net investment income earned | \$ 17,365,127 |
| Net realized capital gain | <u>6,305,278</u> |
| Net investment gain | <u>\$ 23,670,405</u> |

Other Income

| | |
|--|---------------------|
| Finance and service charges not included in premiums | \$ 296,540 |
| Miscellaneous | 6,624 |
| Gain on disposal of fixed assets | <u>145,521</u> |
| Total other income | <u>\$ 448,685</u> |
| Net income before federal income taxes | \$ 11,157,267 |
| Federal income taxes incurred | <u>1,523,508</u> |
| Net income | <u>\$ 9,633,759</u> |

CAPITAL AND SURPLUS ACCOUNT

| | <u>2018</u> | <u>2019</u> | <u>2020</u> | <u>2021</u> |
|---|----------------------|----------------------|----------------------|----------------------|
| Capital and surplus, beginning | \$353,431,474 | \$386,489,927 | \$400,520,540 | \$403,858,128 |
| Net income | \$ 33,042,628 | \$ 13,459,900 | \$ 24,845,843 | \$ 9,633,759 |
| Change in net unrealized capital gains | (3,783,421) | 12,208,888 | (2,625,386) | 11,409,033 |
| Change in net deferred income tax | 1,017,557 | 819,523 | 1,262,022 | 2,818,343 |
| Change in nonadmitted assets | 1,862,856 | 963,882 | (4,438,044) | 4,799,115 |
| Change in provision for reinsurance | 104,835 | | (4,529) | 4,529 |
| Change in liability for pension benefits | (682,186) | (9,789,350) | (9,438,527) | 7,352,211 |
| Change in liability for postretirement benefits | <u>1,496,184</u> | <u>(3,632,230)</u> | <u>(6,263,791)</u> | <u>1,168,070</u> |
| Net change for the year | <u>\$ 33,058,453</u> | <u>\$ 14,030,613</u> | <u>\$ 3,337,588</u> | <u>\$ 37,185,060</u> |
| Capital and surplus, ending | <u>\$386,489,927</u> | <u>\$400,520,540</u> | <u>\$403,858,128</u> | <u>\$441,043,188</u> |

EXAMINATION CHANGES IN FINANCIAL STATEMENTS

Unassigned funds (surplus) in the amount of \$440,043,188, as reported in the Company's 2021 Annual Statement, has been accepted for examination purposes. Examination findings, in the aggregate, were considered to have no material effect on the Company's financial condition.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

No recommendations were made as a result of the previous examination.

COMMENTARY ON CURRENT EXAMINATION FINDINGS

There are no comments or recommendations that have been made as a result of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

There are no comments or recommendations that have been made as a result of this examination.

ACKNOWLEDGMENT

The courteous cooperation extended by the Officers and employees of the Company during this examination is hereby acknowledged.

In addition to the undersigned, Kim Hurst, CFE, Michael Sullivan, CFE, and Alexis Anderson, Financial Examiners; and Gary Evans, CFE, CISA, AES, Information Systems Specialist; all with the Nebraska Department of Insurance, participated in this examination and assisted in the preparation of this report.

Respectfully submitted,



Isaak Russell, CFE
Supervisory Examiner
Department of Insurance
State of Nebraska

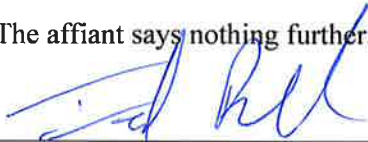
State of Nebraska,

County of Lancaster,

Isaak Russell, being duly sworn, states as follows:

1. I have authority to represent the Department of Insurance of the State of Nebraska in the examination of Farmers Mutual Insurance Company of Nebraska.
2. The Department of Insurance of the State of Nebraska is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of Farmers Mutual Insurance Company of Nebraska was performed in a manner consistent with the standards and procedures required by the Department of Insurance of the State of Nebraska.

The affiant says nothing further.

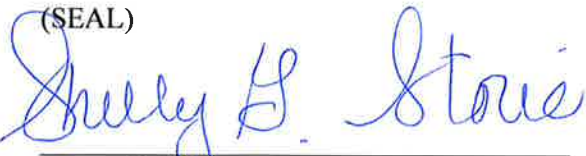


Examiner-in-Charge's Signature

Subscribed and sworn before me by ISAIAK RUSSELL on this 16th day of December, 2022.



(SEAL)



Notary Public

My commission expires 1/16/24 [date].